

**ANNUAL REPORT  
OF THE  
COMMISSION ON MILITARY AND  
VETERANS AFFAIRS**



**Indiana Legislative Services Agency  
200 W. Washington Street, Suite 301  
Indianapolis, Indiana 46204**

**October, 2000**

# COMMISSION ON MILITARY AND VETERANS AFFAIRS

## Membership Roster

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Fort Wayne

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David Miller  
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Terry Smith  
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### Staff

Edward Gohmann  
Attorney for the Committee

Robert Sigalow  
Fiscal Analyst for the Committee

A copy of this report is available on the Internet. Reports, minutes, and notices are organized by committee. This report and other documents for this Committee can be accessed from the General Assembly Homepage at <http://www.state.in.us/legislative/>.

## **I. STATUTORY DIRECTIVE**

The Commission on Military and Veterans Affairs was established by the General Assembly under IC 2-5-20 to study matters relating to veterans and veterans' affairs and matters relating to the active and reserve members of the armed forces of the United States. The Commission may study other topics assigned by the Legislative Council or as directed by the Commission's chairman. The Commission consists of twelve members: four Representatives; four Senators; and four lay members. The chairman of the Legislative Council appoints the chairman of the Commission.

## **II. INTRODUCTION AND REASONS FOR STUDY**

No specific study topics were assigned to the Commission by the Legislative Council in 2000. The Commission determined that it would review the following issues:

### *Professional Licensing and Certification of Veterans*

The Commission heard testimony on this issue to determine if such a program would: (1) assist veterans in finding employment; (2) provide an incentive for veterans to return to Indiana with their training and skills after their enlistments have ended; and (3) help employers fill vacant positions with persons who acquired the necessary skills and training while in the military

### *Income Taxation of Military Income*

The Commission heard testimony on this issue to determine if the deduction, which has been set at \$2,000 since 1965, should be increased.

### *Indiana Veterans Home*

The Commission heard testimony on this issue to determine if the five-year residency requirement for admission to the Veterans Home should be adjusted.

### *Property Tax Deductions for Disabled Veterans*

The Commission reviewed this issue to determine if the property tax deduction for disabled veterans should be increased by the same amount the property tax deduction for elderly persons was increased in 1999.

### *PERF and TRF Military Service Credit*

The Commission heard testimony to determine if members of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) who have not received credit for their military service should either receive credit for that service or should be allowed to purchase credit for that service.

### *POW \ MIA Flags*

The Commission discussed this issue to determine whether it was appropriate for the POW \

MIA flag to be flown at Indiana's highway rest-stops.

### **III. SUMMARY OF WORK PROGRAM**

The Commission met three times during the interim following the conclusion of the 2000 session of the General Assembly. All three meetings were held at the State House in Indianapolis.

At the first meeting, held on August 16, 2000, the Commission heard testimony concerning: (1) the veterans licensing and certification program in Ohio that allows veterans to use training in their military specialties to obtain professional licenses; (2) residency requirements for admission to the Indiana Veterans Home and the waiver process that may be used by veterans with at least one year of residency but less than five years of residency; (3) property tax deductions for disabled veterans; (4) military service credit for PERF and TRF members; and (5) income tax deductions for military income.

At its second meeting, held on September 21, 2000, the Commission heard additional testimony on the issues of: (1) income tax deductions for military income; (2) property tax deductions for disabled veterans; (3) residency requirements for admission to the Indiana Veterans Home; and (4) military service credit for PERF and TRF members. The Commission recommended the introduction of two bill drafts in the 2001 session of the General Assembly, one increasing the income tax deduction for military income and the other increasing the property tax deduction for disabled veterans. The meeting also included a discussion concerning the display of POW \ MIA flags.

At the Commission's third meeting, held on October 20, 2000, the Commission heard testimony concerning the following issues: (1) residency requirements for admission to the Indiana Veterans Home; (2) the display of POW \ MIA flags; and (3) the Commission's proposed final report. The Commission recommended the introduction of a resolution concerning the display of POW \ MIA flags, and it also voted to adopt its proposed final report.

### **IV. SUMMARY OF TESTIMONY**

#### *Professional Licensing and Certification of Veterans*

The Commission heard testimony from Mr. William Jackson, Executive Director of the Indiana Department of Veterans Affairs, concerning a pilot project in Ohio affecting veterans licensing and certification. In his testimony, Mr. Jackson explained that the Ohio program allows veterans to use training in their military specialties to obtain professional licenses. He stated that the Ohio program started in five job areas, and that it is being expanded to additional occupations. Mr. Jackson gave a number of examples of ways in which such a program could help employers fill vacant positions with persons who acquired the necessary skills and training while in the military. Mr. Jackson also testified that such a program in Indiana would help to ensure that veterans from Indiana would return when their enlistments in the military were completed. A representative of the Military and Veterans Coalition of Indiana also testified in support of implementing a program similar to the Ohio licensing project.

#### *Income Taxation of Military Income*

Mr. Joe Duray, Chairman of the Military and Veterans Coalition of Indiana, and other witnesses testified in favor of increasing the income tax deduction for military income from \$2,000 per year to \$6,000 per year. The Commission heard testimony stating that when the state income tax deduction for military income was first enacted in 1965, the amount of the deduction was set at \$2,000, and that it has not been changed since that time. Witnesses testified that in 1965, the military income received by reserve enlisted personnel and junior officers was completely exempted by the \$2,000 deduction, and that to provide the same level of deduction today, the \$2,000 deduction would have to be increased to approximately \$10,000.

The Commission's staff provided a fiscal impact statement that estimated the cost of increasing the deduction to \$6,000 would be \$4.1 million in FY2003.

Witnesses also testified that in 1999 the Commission had unanimously supported the proposed increase in the military income deduction. The Commission heard testimony that a number of states, including Michigan, Kentucky, and Illinois, exempt military retirement income, and that an increase in the Indiana deduction would help to keep Indiana veterans from moving out-of-state to avoid taxation of their pensions. A number of witnesses noted that the Indiana income tax imposed on military pay, including retirement pay, has forced active duty personnel and retired veterans to change their residency from Indiana to another state.

### *Indiana Veterans Home*

Mr. Jackson of the Department of Veterans Affairs explained to the Commission that the law currently requires a veteran to be an Indiana resident for the five years before admission to the Veterans Home, but there is a waiver process under which the Superintendent of the Veterans Home may ask the State Health Commissioner to allow admission for a veteran who has been a resident for at least one year. He testified that the Superintendent of the Veterans Home, the Home's Advisory Commission, and the State Department of Health were interested in changing the statutory residency requirement so that a veteran with at least one year's residency could be admitted to the Home without going through the waiver process. The Commission also heard testimony that there are 96 veterans homes in 44 states, and that approximately 75% of those have a one-year residency requirement.

A witness from the Indiana State Department of Health testified that approximately six to ten residency requirement waivers are granted each year. This witness testified that during the past three years the Department received 18 requests for waivers, and it granted 15 of those requests. He noted that two of the three denials resulted from the inability of the Home to meet the medical needs of the applicants, and that the other denial involved an applicant who had no period of Indiana residency and was otherwise eligible for admission to the Michigan home for veterans.

The witness also explained that the Indiana Veterans Home is licensed for 455 persons and currently has 363 residents, and that the Home has sufficient staff and facilities for up to 385 persons. He testified that based on the aging of the veterans who served during World War II, it is estimated that the Home would face an increased demand beginning in two or three years, with the peak demand occurring some time around 2010.

The witness also testified that 82 of the 96 veterans homes in the United States responded to a survey, showing that 67 homes have a residency requirement of one year or less, nine homes have a residency requirement of two to three years, four homes have a residency requirement of

three to four years, and two homes have a residency requirement of five or more years.

The witness stated that it was possible that veterans who do not know of the current waiver process available for persons with at least one year of residency might become aware of a one-year residency requirement if it were enacted in statute, and that more veterans might apply for admission.

Some Commission members questioned whether it was wise to change the statutory residency requirement from five years to one year, and suggested the possibility of changing to a three-year residency requirement. A number of Commission members also stated that some type of case-by-case waiver process should be maintained to cover veterans who leave Indiana but then return.

In response to a question he had been asked at the Commission's previous meeting, the witness from the Indiana State Department of Health described a number of issues that could potentially develop if the residency requirement were changed to one year. He stated that: (1) if demand increased rapidly a waiting list might develop; (2) if the number of residents increased above 385, costs would increase; and (3) the Home's problems with a shortage of trained staff and staff retention might be exacerbated.

Mr. Jackson of the Department of Veterans Affairs also stated to the Commission that Lt. Governor Kernan had delivered a letter from Governor O'Bannon to the Veterans Home stating that the Governor does not intend to close the Home. Mr. Jackson explained that the wording of a survey related to the operation of state facilities had led to the unfounded rumors concerning the Home's future.

#### *Property Tax Deductions for Disabled Veterans*

The Commission heard testimony noting that the property tax deduction for elderly persons was increased in 1999, but the deduction for disabled veterans was not increased at that time.

Commission staff provided a brief description of the total veterans property tax deductions that were claimed statewide in 1999. According to staff, in 1999 Indiana veterans deducted \$139.8 million in veterans deductions, worth \$12.3 million in actual net property tax reductions.

A number of Commission members suggested that increasing the property tax deduction for veterans may be a difficult thing to do before the debate over the property tax reassessment is resolved.

The Commission heard testimony concerning a proposal to: (A) increase the deduction for disabled veterans (for property taxes payable after 2001) from \$6,000 to \$9,000; and (B) increase the property value limitation (which determines what property is eligible for the deduction) from \$54,000 to \$60,000. The Commission's staff estimated that these proposed changes would increase the amount of assessed value deductions claimed by disabled veterans by a range of \$42 million to \$83 million. Staff explained that deductions from assessed value reduce the property tax base, and cause a shift of the property tax burden from taxpayers receiving the deduction to all taxpayers in the form of a higher rate. It was estimated that the increased deduction for disabled veterans would lead to a property tax shift of \$1.2 million to \$2.5 million.

#### *PERF and TRF Military Service Credit*

The Commission heard a description of HB 1276, which had been introduced by Chairman GiaQuinta during the 2000 Session of the General Assembly in order to provide military service credit for some members of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) who have not received credit for their military service. Under that proposal, members of PERF or TRF who serve on active duty in the armed services of the United States for at least six months would be entitled to up to two years of service credit for the time served on active duty, to the extent that service credit is not granted for that time under other PERF or TRF provisions concerning military service credit. Some Commission members suggested that because of the cost of providing the credit and the increase in the funds' unfunded liabilities, it might prove difficult to pass such a bill.

The Commission also discussed a second approach to providing military service credit. Under this alternative, members of PERF and TRF would be allowed to purchase service credit (at actuarial cost) for military service not eligible for credit under existing PERF or TRF provisions.

The Commission heard testimony that a number of other states and the federal government do give credit for pre-employment military service. Staff noted that a brief survey of a number of surrounding states (Illinois, Kentucky, Ohio, Michigan, Pennsylvania, Minnesota, and Missouri) showed that the states surveyed all allowed some type of purchase of military service credit for their retired public employees.

A witness testified that expanding military service credit available to veterans would help with the retention of public employees during times of low unemployment, and it would also provide some incentive for veterans to return to Indiana and go to work for a public employer.

The Commission also discussed the issue of whether it would be more appropriate for the Pension Management Oversight Commission to review any pension-related proposals.

### *POW \ MIA Flags*

Commission member John Dahman commented that in a number of other states, the POW \ MIA flag is flown at state rest-stops on highways. He asked Mr. Jackson of the Department of Veterans Affairs if the State would consider flying the flag at Indiana's highway rest-stops. The Commission also heard testimony that September 15 is POW \ MIA day, and that beginning on that day the POW \ MIA flag is flown at the Statehouse for 61 days to commemorate Hoosiers who are still missing in action.

There was discussion in the Commission concerning whether the POW \ MIA flag has a higher symbolic connection to those Indiana citizens who are missing in action if it is flown for only 61 days (equal to the number of Indiana citizens who are missing in action), rather than flying it at all times. The Commission briefly discussed the possibility of also flying the flag on other holidays, such as Veterans' Day or Memorial Day.

The fiscal analyst for the Commission provided the Commission with an estimate of the costs of flying the POW \ MIA flag at rest-stops. He began by explaining that there are 38 state rest-stops, and that each rest-stop is currently equipped with a flag pole. He stated that the cost of a 3' x 5' POW \ MIA flag is approximately \$35, and that it is estimated that the flags would have to be replaced every six months because of wear and tear. He said that the cost of flying the flags year-round would be approximately \$2,660, but that if the flags were only flown for the same 61 day

period that they are flown at the State House, the \$2,660 cost would only be incurred every 5 years.

## **V. COMMITTEE FINDINGS AND RECOMMENDATIONS**

The Commission made the following recommendations:

(1) The Commission by an 8-0 vote recommended the introduction of a bill to amend IC 6-3-2-4 to provide for a \$6,000 income tax deduction for military income. (See PD 3255, as amended by the Commission at its September 21, 2000, meeting.)

(2) The Commission by an 8-0 vote recommended the introduction of PD 3207, which would: (A) increase the property tax deduction under IC 6-1.1-12-14 for blind or disabled veterans from \$6,000 to \$9,000; and (B) increase the property value limitation (which determines what property is eligible for this deduction) from \$54,000 to \$60,000.

(3) The Commission by an 8-0 vote requested the Pension Management Oversight Commission to consider PD 3288, which would allow members of PERF and TRF to purchase service credit at actuarial cost for military service not eligible for credit under existing PERF or TRF provisions.

(4) The Commission by a vote of 7-0 recommended the introduction of PD 3287, which would change the statutory residency requirement for admission to the Indiana Veterans Home from five years to three years.

(5) The Commission by a 7-0 vote recommended the introduction of a resolution: (1) urging the POW \ MIA flag to be flown at the State House and at highway rest-stops on Memorial Day and also for the number of days equal to the number of Indiana's MIA's from the Vietnam conflict; and (2) urging the State to provide the POW \ MIA flags that would be flown on those days.

(6) The Commission adopted its final report by a 7-0 vote.



## WITNESS LIST

### **August 16, 2000**

Joe Ryan

William Jackson, Director of the Department of Veterans Affairs

Joe Duray, Military and Veterans Coalition of Indiana

Joe Lackey

Fred Lanahan

Dan Bloodgood

Randy Fairchild

### **September 21, 2000**

Stan Huseland, Reserve Officers Association

Joe Duray, Military and Veterans Coalition of Indiana

Pete Maniago, Indiana State Department of Health

William Jackson, Director of the Department of Veterans Affairs

### **October 20, 2000**

Pete Maniago, Indiana State Department of Health